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21 February 1951

MEMORANDUM FOR GENERAL SMITH

At NSC meeting on February 1st, the NSC noted Director of Defense Mobilization's DEFENSE PRODUCTION POLICY. (Summary Tabbed, ODM4)

THE ATTACHED MEMORANDUM, which was received today and which YOU HAVE NOT SEEN, is Office of Defense Mobilization's recommendation that the Council now concur in the defense production policy, ODM4, referred to above, subject to two relatively minor amendments proposed by Department of Defense in order to avoid any possible misunderstanding. Proposed amendments are shown on Page 1 of attached memorandum.

The attached memorandum contains also questions raised by National Security Resources Board concerning the production policy, and answers thereto; and comments from Department of Agriculture and Reconstruction Finance Corporation, with answers thereto.

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Director of Central Intelligence FRI-5879
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Mr. Lovejoy

EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL SECURITY COUNCIL
WASHINGTON

COPY NO. 14

February 20, 1951

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

SUBJECT: Defense Production Policy

REFERENCES: A. NSC Action No. 435
B. Memo for NSC from Acting Executive Secretary, same subject, dated February 1, 1951

The enclosed document on the subject, transmitted by the Office of Defense Mobilization, is submitted herewith for consideration by the National Security Council at its meeting on February 21, 1951, concurrently with the previously circulated statement by the Director of Defense Mobilization (Reference B).

The Office of Defense Mobilization recommends that the Council concur in the statement of defense production policy attached to the reference memorandum of February 1, subject to the amendments thereto proposed by the Department of Defense in sub-paragraphs a and b on page 1 of the enclosed document.

JAMES S. LAY, Jr.
Executive Secretary

cc: The Secretary of the Treasury
The Secretary of Commerce
The Director of Defense Mobilization
The Economic Cooperation Administrator
The Director, Bureau of the Budget
The Chairman, Council of Economic Advisers

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ODM Doc. 4/1
February 19, 1951

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF DEFENSE MOBILIZATION
Secretariat

SUBJECT: Defense Production Policy

CONTENTS: Answers to questions on ODM Doc. 4, as raised at the fourth meeting of the Defense Mobilization Board, February 14, 1951.

COMMENTS: ODM Doc. 4 was communicated to departments and agencies concerned in the following manner: (a) submitted to the National Security Council, February 1; (b) read to third meeting of ODM Mobilization Executives Staff, February 7; (c) read to fourth meeting of the Defense Mobilization Board, February 14, 1951.

REFERENCE: ODM Doc. 4, February 1, 1951.

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ODM Doc. 4/1
Feb. 19, 1951

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF DEFENSE MOBILIZATION

With respect to the questions raised at the Defense Mobilization Board meeting on February 14, 1951, with reference to ODM Doc. 4, being a statement on Defense Production Policy, the following replies are suggested:

Department of Defense:

The changes recommended in wording in the following comments of the Department of Defense are acceptable.

"The Department of Defense concurs with the views expressed by the Director of Defense Mobilization. However, to avoid any possible misunderstandings the following suggestions are advanced:

a. Paragraph 2. We suggest that a new sentence be added at the end of the paragraph; i.e., 'This will require a spread of contracts across industry as widely as possible in order to obtain a sufficiently broad industrial base.'

b. Paragraph 3. The last sentence is so worded that it may imply that a multiple band priority rating system should be set up. It is our understanding that Gen. Harrison and NPA desire to avoid such a system at this time. We suggest that the last few words be changed to read '.... must have the next urgency status.'

Defense Department's proposed amendments acceptable to Office of Defense Mobilization

c. Paragraph 4 deals with stockpiling.

The Munitions Board has the responsibility for seeing to it that stockpile goals are met. However, it does not have, and should not have, the authority to take such actions as are needed to achieve those goals.

We agree wholeheartedly that the stockpile goals, both for the long term and for the short term, should be realistic and should include our taking some measure of reasonable risk.

However, stockpile goals are agreed upon by an inter-agency committee which should be competent to evaluate their validity. If these goals are valid it seems evident that every effort should be executed to achieve them as rapidly as possible.

Acquisition of stockpile materials is proceeding too slowly in our opinion. Non-essential civilian uses are still heavy in many fields. We feel that non-essential uses should be curtailed where necessary to make materials available to stockpile. We feel also that the acquisition of materials for the stockpile should have an urgency status just under the urgency status of military end items."

Declassified and Approved For Release 2013/12/18 : CIA-RDP86T00268R000500090010-9

Declassified and Approved For Release 2013/12/18 : CIA-RDP86T00268R000500090010-9

National Security Resources Board: (Questions listed at the beginning of each paragraph)

1. Would the policies of these programs increase or decrease our gross national product? It is obvious that this policy will increase our gross national product, as it is designed to absorb a defense effort estimated at 50 billion dollars a year within a period of 3 years. While this may not be maintained in full, there is every reason to believe that it can be obtained in reasonable degree. This would involve an increase in the gross national product from approximately 275 billion dollars to 325 billion dollars.

2. Is an increase of our gross national product important in connection with tax policy and inflation control policy? An increase in our gross national product is essential, not only to provide the Government with tax income, but to meet the demands of the consumer population with goods, thus preventing inflation. In point of fact, the program is designed to insure the meeting of an adequate defense program, while at the same time bringing about a restoration of a reasonably normal economy as rapidly as possible. Only in this way, in the final analysis, can inflation be stopped.

3. Under this program, would all business be encouraged or discouraged in expanding to support the mobilization effort? All business which is essential to support the mobilization effort would be encouraged. On the other hand, during the next year and a half when the demand for materials will be at a peak and before additional materials can be brought in to meet the peak demand, business not essential to support the mobilization effort will not be encouraged to expand. The one thing that can defeat our defense effort is to simultaneously undertake a capital expenditure program beyond our capacity to support with materials or which, if supported, would still further curtail consumer goods. Moreover, in the long run, the undertaking of too much capital expansion now will delay the completion of essential projects. First things must be built first, and further capital expenditures can then be placed under way.

4. Would these programs as expressed in this paper encourage or discourage small business in participating in the defense effort? It is not clear how this policy affects small business insofar as its participation in the defense effort is concerned. Its important effect is that it will keep alive many small businesses doing at least a substantial proportion of their normal business. Obviously, within the total defense program, whatever may be its size, special and earnest efforts must be made to utilize small business.

5. Does the paper take into consideration a future date as the date of most critical danger to the United States? Certainly this office is not attempting to estimate the date of most critical danger to the United States. It has assumed that the Defense Department has submitted a program which it considers to provide reasonable security. The meeting of this program requires the production of many long lead items and little that is

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not being done can expedite the date at which these long lead items will roll off the production line. It does seem clear that we must meet a defense program extending over a number of years. To do this, we must not only establish production lines but also plan to maintain them in use throughout this period. By the time long lead defense items come into production in large numbers, materials will be available and industry will be in a position to expand further and rapidly to meet maximum expansion of defense forces. Based upon military planning, and this office does not intend to question the adequacy of such planning, it would appear that the presently approved program is one which will insure the quickest possible meeting of military needs and, concurrently, the maintenance of a reasonably sound economy capable of complete mobilization for total war when such mobilization is determined.

6. Would a policy that does not look towards increasing the gross national product tend to increase or decrease the necessity for controls? Since this policy is one which does insure an increase in the gross national product, there can be no question but that it would reduce the length of time in which controls would be necessary.

7. Are these programs in accordance with the position of the President in his Economic Report? It is the opinion of this office that this policy is in accordance with the position of the President. It was written to express the position of the President in production objectives.

8. Are they in accordance with his proclamation of the Emergency Message? It is the view of this office that the proposal is in accordance with the proclamation of the Emergency Message. Certainly, it involves the development of an economy which will support for as long as may be necessary an annual expenditure for defense in the neighborhood of 50 billion dollars, and which, in meeting such a program, can still expand rapidly for total war.

9. Are these programs in accordance with the expanding-economy philosophy of the Congress as expressed in the Defense Production Act? It is the view of this office that these programs are in accord with the expanding-economy philosophy of the Congress. For example, the program involves an expansion of about 16 million tons per year of steel capacity. A further expansion of steel may be desirable to meet the needs which will arise after 1953. However, a further expansion in steel now would delay the completion of the projects which have been approved and, thus, would slow down the immediate effort. If and when the present steel program is completed, or as additional materials become available, then consideration may be given to still greater steel expansion. We cannot undertake too much now without delaying the meeting of basic needs.

Declassified and Approved For Release 2013/12/18 : CIA-RDP86T00268R000500090010-9

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10. Does this policy reflect support of not only the military programs of ourselves and our allies but programs for a minimum civilian economy in our country and those of our allies; i.e., that minimum civilian economy necessary for them to build their part of the war production? This program is designed to insure that we will maintain better than a minimum and an increasing civilian economy over a long period of time. It does reflect support of reasonable foreign programs. We must remember that even at this moment the demand for certain steel products is twice the available supply. In large part, this demand arises from trying to undertake too much too soon. There must be a proper balance between the projects which are approved to provide additional materials and the end-item programs including a reasonable civilian economy. Moreover, the civilian economy to be maintained for an indefinite period must be above the irreducible minimum which would result in total war.

11. Do these programs recognize the steadily increasing danger of a sudden all out atomic attack against the United States? This office finds it difficult to answer this question. The programs in themselves do not provide for the allocation of additional facilities which would be available in the event of sudden all out atomic attack. The provision by the Defense Department of facilities capable of further expansion is some protection. It is expected also that the wide dispersion and diversification which already exists in American industry will be continued and increased in the program to provide additional protection. It is assumed that whatever industrial losses the United States would suffer in the event of sudden atomic attack would not be out of comparison with similar losses which would be suffered by the enemy, and that no such attack is at this time likely to decrease our industrial ability to a relatively greater degree than the industrial ability of our enemy. Fortunately, American industry is widespread. Perhaps later, when immediate programs have been met, some provision must be made for additional facilities as insurance against atomic attack, as well as for the construction of facilities resistent to such attack. Such a program does not appear possible at this time.

12. Do not these programs put a ceiling on production. If true, does that not increase the necessity for a continued ceiling on prices and therefore wages? The policy does not put a ceiling on production. However, there will be a ceiling on production which will come about from scarcity of materials. As additional materials become available, this ceiling will be raised. Nevertheless, the rate at which additional materials are brought in must be controlled to prevent an excessive demand for critical materials and components which could be met now only at the expense of essential programs.

13. Should we not either build up our maximum military strength now, or increase our mobilization base? This office does not propose to comment with respect to the adequacy of our present military strength. However, we believe that the mobilization base which is now established will, by the time long lead items can become available, fully meet the requirements for military items for the first year of war and will, therefore,

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Declassified and Approved For Release 2013/12/18 : CIA-RDP86T00268R000500090010-9

permit a year of further expansion for total war. It would seem that a further increase of our mobilization base now would delay the attainment of immediate objectives and, thus, decrease rather than increase our immediate security.

14. If we do not do either, rather devote such items as copper and steel to our already lush civilian economy, how can we defend that to our fighting forces? How can we justify it, because we can double our present defense effort and still have a civilian economy well ahead of the civilian economy standards prior to World War II. This program has been designed to fully meet the expressed needs of our fighting forces. Quite obviously, if these needs are changed, then the program should be changed. Moreover, while we still have a civilian economy far ahead of the standards of World War II, it is apparent that this comes about in part because the full impact of the defense effort has not yet hit our economy. Our present plans contemplate a reduction in consumer durables by the end of the year of from 30% to 40%. While inventories will maintain a high standard of living for some time, the shortage of consumer goods will be real and will make our efforts to control inflation just that much more difficult. If, as this office understands the directives which have been issued, we are in a long-term defense program, then indeed it is important to maintain a reasonably sound economy. On the other hand, this office is not attempting to freeze a program. It is attempting to establish criteria which would insure the meeting of the program now expressed by the Defense Department. Obviously, if this military program is changed either upward or downward, production objectives would have to be revised accordingly.

15. How can we establish even a firm and restrictive definition of mobilization philosophy at this time when we do not yet know the details of what is needed quantitatively so we can really measure resources against requirements? While my experience in World War II tells me very definitely that we know now about as much quantitatively in an overall way of our needs as we will ever know at any given time, this office has made no attempt to express its objectives quantitatively. Nevertheless, the information which it has recieved does establish that we can return to a reasonably normal economy with, for example, a steel output approaching 118 million tons per year. However, the piling up of requirements which is now taking place requires an allocation of materials, and there can be no intelligent allocation of materials unless those responsible for such allocation have a guiding philosophy. Certainly, we can double our present defense effort, but to do so would result in a very serious disruption of our economy which could not be maintained over a long period. The stockpiling of military end items, the development of resources now beyond those required to sustain a year of total war, would result in the short-time diversion of a very large portion of our economy and the establishment of production rates at peaks which could not be maintained unless total war did result. It would seem that a national expenditure of 50 billion dollars for defense is a recognition of the present emergency. It will provide not only the needs as expressed by our Defense Department, but also an economy which will be acceptable to the American people for the long pull and capable of diversion in great part if total war comes.

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Expressed in popular terms, this is a guns and butter economy. It is our understanding that until total war does come our objective must be to supply both guns and butter, so that when total war does come there is enough butter in the hands of the American people so that we need then to think only of guns.

Department of Agriculture

With respect to the comment by Secretary Brannan, there is nothing in the proposed policy statement which would prevent the provision of additional nitrogen facilities if it is demonstrated that the existing facilities do not suffice for the present military program and for agricultural needs. If these fertilizer plants would be required only in the event of total war, then it would seem that their construction should not be placed under way until it is clear that it will not conflict with the facilities being provided for the immediate program. Moreover, this program is designed to insure that reasonable quantities of materials will be available for farm and associated agricultural needs.

Secretary Brannan's comments, communicated to the Executive Secretary of ODM by the Executive Assistant to the Secretary of Agriculture, are as follows:

> "Secretary Brannan expressed the hope that the category of 'Defense', as used in the proposed policy statement, was broad enough to include essential agricultural supplies, such as nitrogen for fertilizer. He stated, for example, that one ton of ammonium nitrate will produce an additional 250 or 300 bushels of corn--enough to feed 10 or 12 hogs. The Secretary stated that his department is asking for the building of several nitrogen plants and that it would be essential that the material for these plants be regarded as defense material, even though the end product will not go into the hands of soldiers. He added that officials of the Department who are looking to get sufficient materials for farm machinery, fertilizer, insecticides, etc., encounter some feeling that food production is not directly enough a defense problem to warrant full attention."

Reconstruction Finance Corporation

With respect to Mr. Harber's suggestion, paragraph 5 simply stated a few examples of many, and there can be no objection to the addition of exploration and production of crude oil to these examples.

The suggestion of RFC Chairman Harber is quoted as follows:

> "The second sentence of Item 5 identifies certain programs to be included, such as the provision of additional oil refining capacity, pipelines, ocean-going tankers, tank cars, etc. It occurred to me in this reference that there should be included in this program the exploration and production of crude oil. It seems to me that it is essential that an exploration program be carried on for the purpose of bringing into being additional sources of supplies of crude oil with the objective of increasing existing production."

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19 February 1951

ODM 4

MEMORANDUM FOR GENERAL SMITH

At recent meeting the National Security Council noted the attached statement of DEFENSE PRODUCTION POLICY by Director of Defense Mobilization, read by him at the meeting:

Adequate defense requires immediate production of weapons of war and supporting equipment needed to meet Defense Department approved plans for our forces and military support of our allies. The program must be directed to provide production lines which will sustain a greater output than contemplated in immediate program, to be available as war reserve.

Program of military and related end items must receive a higher priority than any other program. Determined effort must be made to avoid creation of additional facilities, as each additional facility included in the program adds to demand for scarce materials.

To extent essential to immediate program, facilities and provisions for raw materials must have next priority.

US must prepare to meet calculated demands for total war by stockpiling and/or increasing production in areas relatively safe against attack to provide materials to sustain a civilian economy sufficient to support full war effort. Reasonable security involving calculated risk must govern during immediate period in which so many other demands must be met from oureconomy.

Each program submitted with a view to strengthening general economy must be scrutinized with great care; and with rare exception, only those programs required for immediate support of present military end-item program should be placed underway now.

Defense effort must be continued as long as threat of war continues; and during this period it is essential to maintain a sound and healthy national economy which alone can insure maximum production output if and when war does come.

Presently approved military program provides basic requirements for security. With this equipment on hand and with a sound healthy economy, a declaration of war would find US prepared to expand with sufficient rapidity to meet demands of total war.

Prompt use of controls will reduce to a minimum the disruption to our economy. With proper use of controls, it is possible to meet a defense program of present magnitude over years ahead, and to return within a two or three year period to a relatively normal economy.

Our immediate program must be met with a high sense of urgency and determination. We must not, however, be stampeded into undertaking programs which will, through their effect on our economy, decrease our ability to wage war. Each project must be examined and approved with these considerations in mind.

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Director of Central Intelligence 5506

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EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL SECURITY COUNCIL
WASHINGTON

COPY NO. 11

February 1, 1951

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

SUBJECT: Defense Production Policy

REFERENCE: NSC Action No. 435

The enclosed statement by the Director of Defense Mobilization on the subject, read and noted at the 82nd Council meeting with the President presiding (NSC Action No. 435) is circulated herewith for the information and record of the National Security Council.

S. EVERETT GLEASON
Acting Executive Secretary

cc: The Secretary of the Treasury
The Director of Defense Mobilization

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ODM Doc. 4
February 1, 1951

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF DEFENSE MOBILIZATION
Washington 25, D. C.

Statement by the Director of Defense Mobilization

on

DEFENSE PRODUCTION POLICY

1. The development of adequate defense requires the immediate production of the weapons of war and supporting equipment required to meet the approved plans of the Defense Department for our own forces and also for the military support of our allies in accordance with such agreements as have been or may be reached.

2. The program to provide these immediate demands must be directed to provide production lines which will sustain a greater output than contemplated in the immediate program, to be available as a reserve for war.

3. This program of military and related end items is of utmost urgency and, therefore, must receive a higher priority than any other program. To meet it will require some expansion of facilities and some additional provisions for raw materials. A determined effort must be made to avoid the creation of additional facilities, inasmuch as machine tools now on hand in the national economy more than suffice to use all available materials, and each additional facility which is included in the program adds to the demand for materials in scarce supply. However, to the extent essential to the immediate program, facilities and provisions for raw materials must have the next priority.

4. In addition to meeting the immediate security program, the United States must prepare to meet the calculated demands for total war. This will require stockpiling and/or increasing production in areas relatively safe against attack to provide the materials needed to sustain a civilian economy sufficient to support a full war effort as well as that effort. Obviously, this is a program of relative security and, hence, the provisions to be made to assure an adequate war supply should not eliminate all risks. Great care must be taken to

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avoid the compounding of safety factors, both in computing requirements and in determining the availability of materials. Programs must be developed which may be expected to sustain total war, but which have taken into consideration those risks which can be calculated and reasonably evaluated. Absolute security in this field must be a long-range, rather than an immediate task. Reasonable security involving the calculated risk must govern during the immediate period in which so many other demands must be met from our economy.

5. It is inevitable that, as a consequence of the defense program and the attractive financing arrangements which result necessarily therefrom, many large programs will be submitted in allied fields which have in view the strengthening of the general economy to sustain a maximum war effort. This will include such programs as the provision of additional oil refining capacity, pipelines, ocean-going tankers, tank cars, electric power and others. Each of these programs must be scrutinized with great care. With rare exception, only those programs required for the immediate support of the present military end item program should be placed underway now, and their continuation to support a maximum war need should await the meeting of present needs. Otherwise, conflicting programs are certain to develop to delay, rather than to hasten the accomplishment of the over-all objective.

6. Our defense effort must be continued as long as the threat of war continues, which must be assumed now to mean a period of a number of years. During this period, it is essential to maintain a sound and healthy national economy which alone can insure maximum production output if and when war does come. To build up at an excessive rate beyond the immediate needs of relative security could well disrupt the economy to a degree which would make it impossible to divert anywhere nearly as large a proportion of our productive output to war, if war comes, as would be necessary. The presently approved military program provides the basic requirements for security. With this equipment on hand and with a sound and healthy economy, a declaration of war would find the United States prepared to expand with sufficient rapidity to meet the demands of total war. Moreover, this economy will be able to maintain a large defense production program for as long as necessary and, concurrently, a healthy standard of living for the American people.

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7. The present program can be met and still permit the maintenance of a substantial civilian economy and the support of a reasonable export program, provided there is no hesitation in using controls as needed. The prompt use of controls now will reduce to a minimum the disruption to our economy and in doing so will make it possible for a release of such controls at an early date; whereas, to wait to apply controls will certainly result in the imposition later of controls for a much longer and indefinite period. With the proper use of controls, it is possible to meet a defense program of the present magnitude over the years ahead as long as necessary, and to return within a period of from two to three years to a relatively normal economy. Meanwhile, inventories on hand and particularly those under the control of the individual, should suffice to very closely maintain our present standard of living even during the period of acute shortages of scarce materials.

8. Our immediate program must be met with a high sense of urgency and determination. However, we must not be stampeded into undertaking programs for the sake of defense which will, through their effect on our economy, decrease our ability to wage war. Each and every program and project must be examined and approved with these considerations in mind.

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